

# **Summary of Testimony of Dr. Lee L. Selwyn**

President, Economics and Technology, Inc.  
Boston, Massachusetts 02108

Presented On Behalf of Western Wireless Corp.

Federal-State Joint Board on Universal Service  
en banc Hearing on High-Cost Universal Service Support  
in Areas Served by Rural Carriers

Panel 2: What methodology should the Commission use to calculate  
the basis of support for eligible telecommunications carriers?

Nashville, TN – November 17, 2004

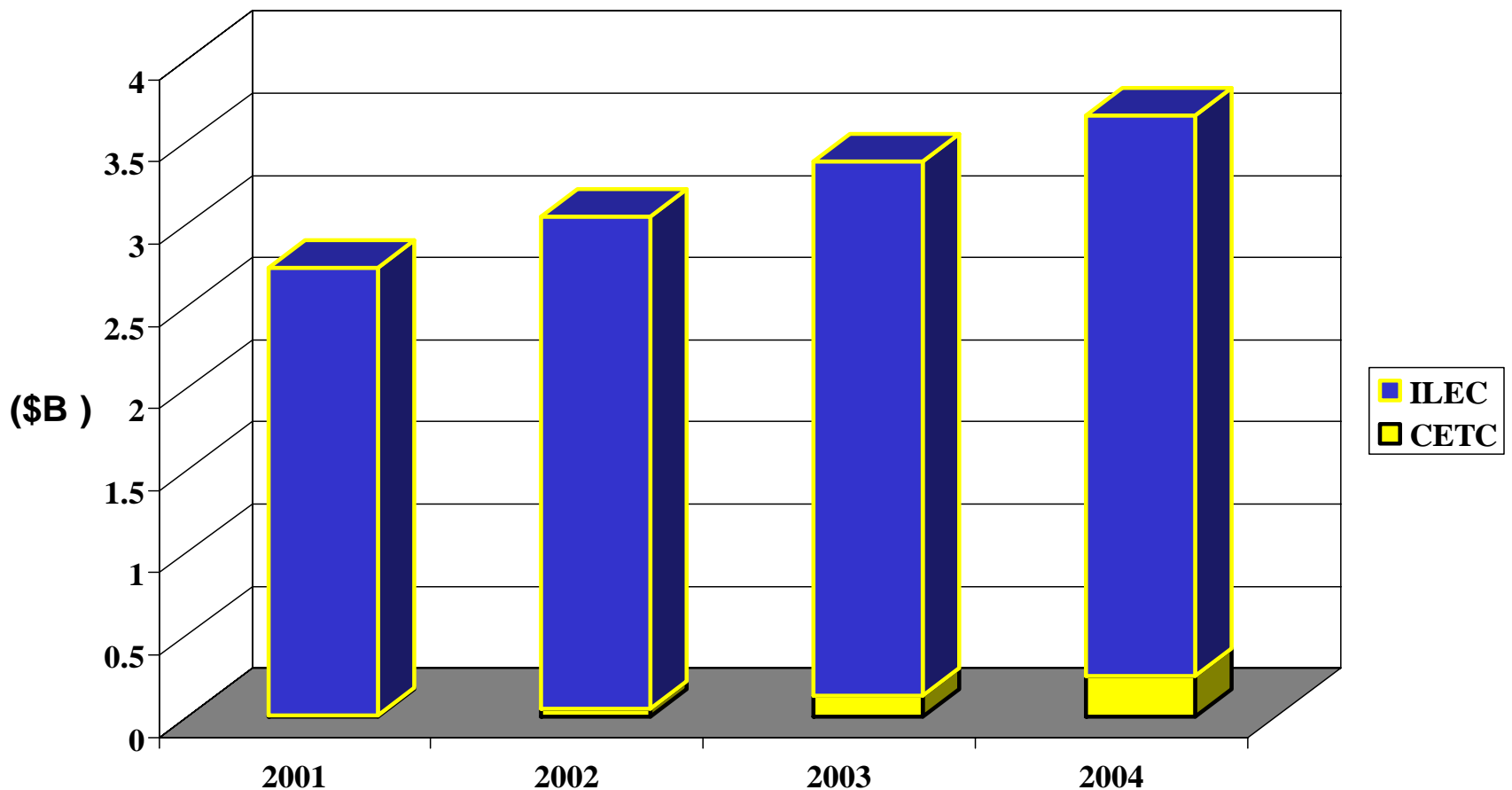
# USF policy: A focus on *consumers*

- The '96 Act's universal service focus is on *consumers* – not on *providers*.
- At bottom, providers have no inherent *entitlement* to high-cost funding except where it supports statutory *consumer-oriented* goals.
- Existing distinctions between “small rural ILECs” and other “high cost” providers must be examined solely in terms of how the statutory goals of universal service can be achieved most efficiently.

# Institutionalized inefficiency

- CETCs seeking to compete in rural areas and to introduce more efficient service strategies, such as wireless, are institutionally disadvantaged when forced to compete with heavily subsidized incumbents.
- CETCs are not the source of the rampant growth in the amount of high-cost support, but even if they were, a policy of competitive neutrality is the best strategy for assuring maximum efficiency and universal service.

# ILEC demand for high-cost support continues to escalate



# Forward-looking costs

- The use of embedded cost as the basis for RLEC high cost support discriminates against competitors
- Distorts efficient technology choices
- Discourages competitive entry
- Denies rural customers benefits of competition and innovation
- Violates overarching goal of '96 Act: “To promote competition and reduce regulation in order to secure lower prices and higher quality services for American telecommunications consumers and encourage the rapid deployment of new telecommunications technologies.”

# Forward-looking costs

- Provide sufficient level of high-cost support to permit recovery of additional investment and ongoing operating costs going forward.
- Assure standardized cost estimation, limit opportunities for gaming
- Are competitively neutral as between RLECs and CETCs

# Forward-looking costs

- All ETCs (rural and non-rural incumbents and competitors) should be subject to equal, competitively-neutral treatment with respect to high cost support.
- The basis for high cost support for all ETCs should be the cost for the most efficient ETC.
- The distinction between small RLECs and other carriers with respect to the use of embedded vs. forward-looking cost should be eliminated, and all ETCs should receive funding based on forward-looking cost.